

Special report: FATF grey-listing in Sub-Saharan Africa

A Basel AML Index briefing on countries in Sub-Saharan Africa subject to grey-listing by the Financial Action Task Force (FATF).

In a nutshell

Jurisdictions on grey list from October 2022: Burkina Faso, Democratic Republic of the Congo, Mali, Mozambique, Senegal, South Sudan, Tanzania, Uganda.

Principal reasons: Failings in effectiveness; issues with assessing ML/TF risks and applying a risk-based approach; weak capacity to investigate and prosecute financial crime.

Significance: Impact on jurisdictions' access to international finance and foreign direct investment.

More on ML/TF risks and vulnerabilities in Sub-Saharan Africa and around the world via the Expert Edition: <https://index.baselgovernance.org/expert-edition>.

1 Which countries are on the grey list?

A third of the 23 countries on the FATF's list of jurisdictions under increased monitoring ("grey list") are in Sub-Saharan Africa. Officially known as a "list of jurisdictions under increased monitoring", the grey list includes those countries that have strategic deficiencies in their national regimes to counter money laundering, terrorist financing and proliferation financing.¹

October 2022 saw the Democratic Republic of the Congo, Mozambique, Tanzania added to the grey list. This raised questions about AML/CFT issues across the region.

The presence of so many Sub-Saharan African countries on the grey list reinforces findings of the Basel AML Index that the region is suffering severe shortfalls in terms of anti-money laundering and counter-terrorist financing (AML/CFT). Looking at the 26 Sub-Saharan African countries included in the Basel AML Index Public Edition 2022:

¹ See the FATF website: [https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/?hf=10&b=0&s=desc\(fatf_releasedate\)](https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/?hf=10&b=0&s=desc(fatf_releasedate))

- **The average risk score for the region was 6.58 out of 10**, where 10 is the maximum risk level. This is significantly higher than the global average of 5.25.
- **More than 60 percent of countries fell into the high-risk category** for ML/TF – i.e. a risk score of 6.67 or above.
- **Risk scores were higher than the global average across all five domains** measured by the Basel AML Index, but particularly concerning in the domain "Quality of AML/CFT Framework".

View the ranking and infographic for Sub-Saharan Africa on the Basel AML Index website: index.baselgovernance.org/download.²

2 What is the impact of grey-listing?

Strictly speaking, a country on the grey list is not subject to sanctions. However, being on the grey list signals to financial institutions that there could be enhanced transaction risks in doing business with such a jurisdiction. Indeed, a 2021 International Monetary Fund working paper demonstrates that grey-listing results in a large and statistically significant reduction in capital inflows:³

- Capital inflows decline on average by 7.6% of GDP when the country is grey-listed.
- Foreign direct investment inflows decline on average by 3.0% of GDP.
- Portfolio inflows decline on average by 2.9% of GDP.
- Other investment inflows decline on average by 3.6% of GDP.

The FATF standards do not envisage de-risking, or cutting off entire classes of customers.

⁴ Nor does the FATF formally call for the application of enhanced due diligence measures to be applied to these jurisdictions.⁵

On the other hand, financial institutions are expected to apply a risk-based approach and perform detailed due diligence on customers from high-risk jurisdictions. Investors may also use the grey list as a restriction for investments and thus choose to reallocate resources and reduce their exposure to the country. The consequences of being grey-listed are therefore tremendous.⁶

² Find the infographic in Annex I and at:

https://index.baselgovernance.org/api/uploads/Sub_Saharan_Africa_1efce0a362.pdf

³ Kida, Mizuho and Paetzold, Simon, The Impact of Gray-Listing on Capital Flows: An Analysis Using Machine Learning (May 1, 2021). IMF Working Paper No. 2021/153, Available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4026331#

⁴ De-risking refers to the decision taken by financial institutions not to provide services to customers in certain risk categories, including a geographic risk category.

⁵ As the FATF is careful to emphasise in its announcement of jurisdictions under increased monitoring: <https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-october-2022.html>

⁶ Morse, Julia C. 2019. "Blacklists, Market Enforcement, and the Global Regime to Combat Terrorist Financing." International Organization 73 (3):511–545.

3 How does grey-listing happen?

The first step towards being grey-listed is a referral to the FATF's International Co-operation Review Group (ICRG). This is based primarily on the results of the jurisdiction's Mutual Evaluation Report (MER). Jurisdictions whose MER reveals a significant number of key deficiencies are referred to the ICRG for a preliminary or *prima facie* review conducted by one of four ICRG regional review groups.⁷ A jurisdiction can be referred to the ICRG if its MER has the following results:

- The jurisdiction has 20 or more Non-Compliant or only Partially Compliant ratings for technical compliance with FATF Recommendations; or
- It is rated Non-Compliant or Partially Compliant on three or more of the so-called "core" Recommendations: 3, 5, 6, 10, 11 and 20; or
- It has a low or moderate level of effectiveness for nine or more of the 11 Immediate Outcomes – key goals that an effective AML framework should achieve – with at least two lows; or
- It has a low level of effectiveness for six or more of the 11 Immediate Outcomes.

Following referral to the ICRG, jurisdictions have a year to improve their results and avoid being grey-listed. Those that don't manage to improve in this period are referred further to the FATF. Jurisdictions with large financial sectors are prioritised in the subsequent review. As the FATF states:

"A jurisdiction that enters the ICRG review process as a result of its mutual evaluation results has a one-year observation period to work with the FATF or its FATF-style regional body to address deficiencies before possible public identification and formal review by the FATF. The FATF then prioritises the review of those countries with more significant financial sectors – e.g. USD 5 billion or more in financial sector assets."

Sub-Saharan Africa: effectiveness is a major issue

The performance of all grey-listed countries in the Sub-Saharan region is low, especially in terms of the effectiveness of AML/CFT measures.

Except for South Sudan (which has not been yet assessed with an MER), the other seven countries all fulfil at least the following criterion: *it has a low or moderate level of effectiveness for nine or more of the 11 Immediate Outcomes (IOs) which are key goals that an effective AML framework should achieve, with a minimum of two lows.*

In Basel AML Index calculations, effectiveness levels vary between zero percent and a maximum of six percent for the grey-listed countries.

⁷ [https://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/more/moreabouttheinternationalco-operationreviewgroupicrg.html?hf=10&b=0&s=desc\(fatf_releasedate\)](https://www.fatf-gafi.org/publications/high-riskandnon-cooperativejurisdictions/more/moreabouttheinternationalco-operationreviewgroupicrg.html?hf=10&b=0&s=desc(fatf_releasedate))

Even though poor performance in MER is the most frequent reason to be referred to the ICRG process, there are two possible additional reasons:⁸

1. The jurisdiction does not participate in a FATF-style regional body or does not allow mutual evaluation results to be published in a timely manner; or
2. The jurisdiction is nominated by a FATF member or an FATF-style regional body. The nomination is based on specific money laundering, terrorist financing or proliferation financing risks or threats coming to the attention of delegations.

4 How to be delisted?

Grey-listed jurisdictions work together with the FATF or FATF-style regional body to develop and agree a specific action plan to address the identified deficiencies. The jurisdiction needs to make a high-level political commitment that the jurisdiction will implement the legal, regulatory and operational reforms required by the action plan. This high-level political commitment is important: without political will, it is unlikely the jurisdiction's authorities will be able to make the required reforms.

The number of items listed in the action plan may influence the length of the country's period in the grey list. It will generally take less time to deliver on two or three identified issues than on eight or nine items. But more important is the jurisdiction's capacity not only to adopt new regulations but also to implement them effectively in practice.

The table in Annex II includes items of action plan for the countries of Sub-Saharan Africa. An analysis of these plans indicates that most of the jurisdictions face similar strategic deficiencies, centred on the following areas:

- **Assessing risks:** Conducting a national risk assessment covers identifying the key risks and developing AML/CFT strategies and plans in line with the identified risks. This is the first and most important step that has to be performed.⁹ Without a sophisticated and detailed understanding of the existing ML/TF risks, the country can't build any further steps to mitigate them. It is one of the most important areas for all grey-listed countries of the Sub-Saharan Africa region.
- **Developed a risk-based to supervision** for the financial sector, designated non-financial businesses and professions (DNFBP) such as lawyers and accountants, as well as non-profit organisations in relation to terrorist financing risks.
- **Establishing accurate beneficial ownership information registers** and strengthening sanctions in case of inaccuracies found in beneficial ownership information.

⁸ [https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc\(fatf_releasedate\)](https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc(fatf_releasedate))

⁹ See: Boguslavskaya, Kateryna. 2022. Quick guide to national money laundering and terrorist financing risk assessments. Basel Institute on Governance, available at: <https://baselgovernance.org/publications/quick-guide-26-national-money-laundering-and-terrorist-financing-risk-assessments>

- **Enhancing the capacity of financial intelligence units** and increasing their resources.
- **Enhancing the capacity of law enforcement agencies** to investigate and prosecute ML/TF offences and confiscate proceeds of crime. This area is one of the most crucial for all the grey-listed countries of the region.
- **Implementing effective targeted financial sanctions regimes** related to terrorism financing and proliferation financing.

5 How long is it taking jurisdictions in Sub-Saharan Africa to be de-listed?

Jurisdictions must complete all items on their action plan in order to be delisted, and demonstrate this to the FATF or its regional body during an on-site visit.

“Once the FATF has determined that a jurisdiction has done so, it will organise an on-site visit to confirm that the implementation of the necessary legal, regulatory, and/or operational reforms is underway and there is the necessary political commitment and institutional capacity to sustain implementation.”¹⁰

If the on-site visit confirms the positive outcomes, the jurisdiction will be removed from the grey list at the next FATF plenary meeting in February, June and October.

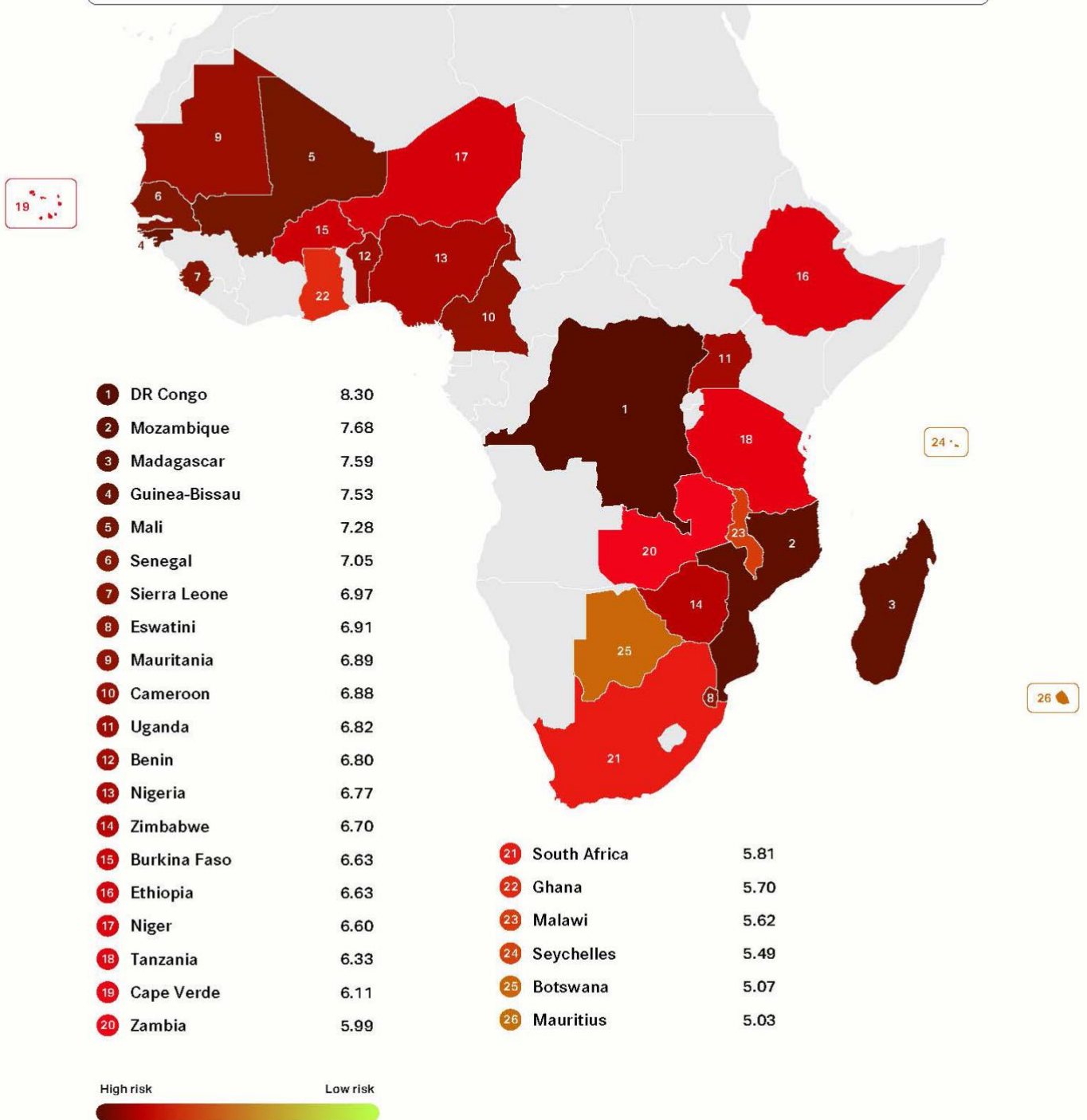
Currently, based on the results of the last plenary FATF session in October 2022, Uganda has been on the grey list for the longest time – since February 2020. In those 2.5 years, it has achieved some progress and addressed three out of the eight items on the action plan.

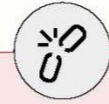
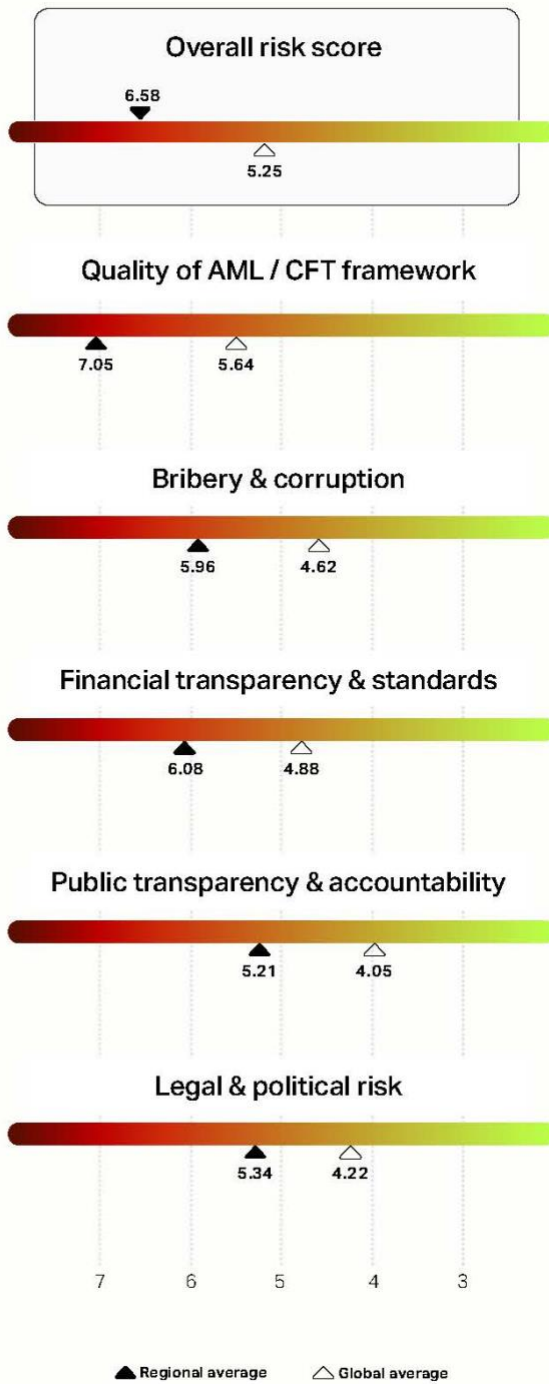
Burkina Faso (9 items), Mozambique (9 items), Mali (8 items) have the longest lists of items on their action plans: 9, 9 and 8 respectively. As they progress in improving their strategic deficiencies, the FATF will report at its plenary meetings on the progress achieved and what still remains to be done.

¹⁰ [https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc\(fatf_releasedate\)](https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/more/more-on-high-risk-and-non-cooperative-jurisdictions.html?hf=10&b=0&s=desc(fatf_releasedate))

Annex I: Sub-Saharan Africa in the Basel AML Index

Country coverage of the region significantly improved from 18 to 26 countries, reflecting new data from FATF mutual evaluation reports. Almost 62% of countries in this region are assessed as having a high risk of ML/TF. Scores for the quality of the AML/CFT framework remain mostly unchanged from 2021, but increased in the other four domains.





WEAKEST AREA

Quality of AML / CFT framework.

For Cameroon, the Democratic Republic of the Congo, Madagascar, Mozambique and Zimbabwe, a high risk score for ML/TF correlates with high scores in relation to environmental crimes.

In terms of the effectiveness of measures, the weakest areas are transparency of beneficial ownership and non-proliferation of weapons of mass destruction.

Annex II: Summary of action plans for grey-listed countries

Country	National risk assessment (NRA), AML/CFT, strategy, action plan	Mutual legal assistance (MLA) and other forms of internat. cooper.	Supervision of financial institutions (FI), DNFBPs and non-profit organisations (NPOs)	Beneficial ownership (BO) of legal persons and legal arrangements	Suspicious transactions reporting (STR)	FIUs/financial intelligence	Capacity building and capabilities to investigate, and prosecute ML/TF cases	Targeted financial sanctions related to TF and proliferation financing (PF)
Burkina Faso, since Feb 2021	Revise the NRA	Ensure MLA in line with its risk profile	Strengthen resources for all AML/CFT supervisory authorities and implement RBA supervision	Maintain comprehensive and updated BO information and strengthen sanctions for violation	Increase diversity of STR reporting	Enhance the capacity of FIU	Conduct training for LEAs, prosecutors and other relevant authorities	Implement effective targeted financial sanctions regime related to TF and PF
DRC Since Oct 2022	Finalise the AML/CFT NRA, adopt AML/CFT national strategy		Designate supervisory authorities for all DNFBP sectors, develop, implement risk-based supervision plan			Resource the FIU, build its capacity to conduct operational and strategic analysis	Strengthen the capabilities of authorities involved in the investigation and prosecution of ML and TF	Effectively implement TF and PF-related TFS
Mali since Oct 2021	Implement AML/CFT action plan in line with NRA		Develop and start implementation of the risk-based approach to supervision of all FIs and higher risk DNFBPs Implement effective sanctions for noncompliance Implement risk-based supervision of the NPO to prevent abuse for TF aims	Conduct a comprehensive assessment of ML/TF risks associated with all types of legal persons		Increase the capacity of the FIU and the LEAs Enhance cooperation on the use of financial intelligence	Strengthen the capacities of relevant authorities responsible for investigation and prosecution of ML and TF cases	Establish legal framework procedure to implement TFS related to TF/PF
Mozambique, since Oct 2022	Conduct TF risk assessment and begin implementing national CFT strategy Carry out the TF risk assessment for NPOs Ensure cooperation amongst relevant authorities to implement risk-based AML/CFT strategies and policies		Provide adequate financial and human resources to supervisors, Develop and implement a risk-based supervision plan	Provide adequate resources to the authorities to commence the collection of accurate BO of legal persons		Increase the human resources of the FIU. Increase quality of financial intelligence sent to authorities	Conduct training for all LEAs on MLA to enhance gathering of evidence, seizure/confiscation of proceeds of crime Demonstrate LEAs capability to effectively investigate ML/TF cases using financial intelligence	Increase awareness on TF and PF-related TFS

Senegal, since Feb. 2021	Strengthen the understanding of TF risks		<p>Improve compliance by detecting AML/CFT violations</p> <p>Impose effective, proportionate and dissuasive sanctions against non-compliant entities</p>	<p>Update and maintain comprehensive BO information on legal persons and arrangements</p> <p>Strengthen the system of sanctions for violations</p>			<p>Enhance capacity and support for LEAs and prosecutorial authorities involved in combatting TF</p>	<p>Implement effective TFS regime related to TF and PF</p>
South Sudan¹¹ since June 2021			<p>Ensure that competent authorities are suitably structured and capacitated to implement a RBA to AML/CFT supervision for financial institutions</p> <p>Implement targeted risk-based supervision of NPOs</p>	<p>Develop comprehensive legal framework to collect and verify the accuracy of BO information for legal persons</p>		<p>Operationalise functioning and independent FIU</p>		<p>Establish, implement legal and institutional framework to implement TFS</p>
Tanzania, since Oct 2022	<p>Conduct TF risk assessment and begin implementing of national CFT strategy</p> <p>Carry out the TF risk assessment for NPOs and use it as a basis to develop an outreach plan</p>		<p>Improve risk-based supervision of FIs and DNFBPs</p> <p>Apply effective, sanctions for non-compliance</p>				<p>Demonstrate capability to effectively conduct ML/TF investigations/prosecutions</p> <p>Demonstrate that LEAs are taking measures to identify, trace, seize, and confiscate proceeds and instrumentalities of crime</p>	<p>Increase awareness of the private sector and competent authorities on TF and PF-related TFS</p>
Uganda, since Feb 2020			<p>Develop and implement risk-based supervision of FIs and DNFBPs</p>	<p>Ensure that competent authorities have timely access to accurate basic and BO information for legal entities</p>			<p>Demonstrate LEAs and judicial authorities apply the ML offence consistent with the identified risks</p> <p>Establish and implement policies and procedures for identifying, tracing, seizing and confiscating proceeds and instrumentalities of crime</p>	<p>Implement PF-related TFS</p>

¹¹ South Sudan became a member of ESAAMLG in September 2022. No MER has been issued. The country still has to review of the AML/CFT Act (2012), with the support of international partners, including technical assistance, to comply with the FATF standards. It also has to become a party to and fully implementing the 1988 Vienna Convention, the 2000 Palermo Convention, and the 1999 Terrorist Financing Convention.